



WEEKLY ECONOMIC DIGEST

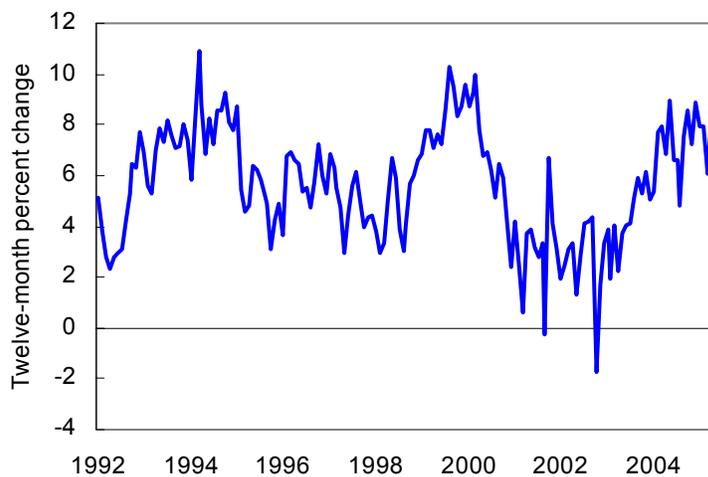


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

May 17, 2005

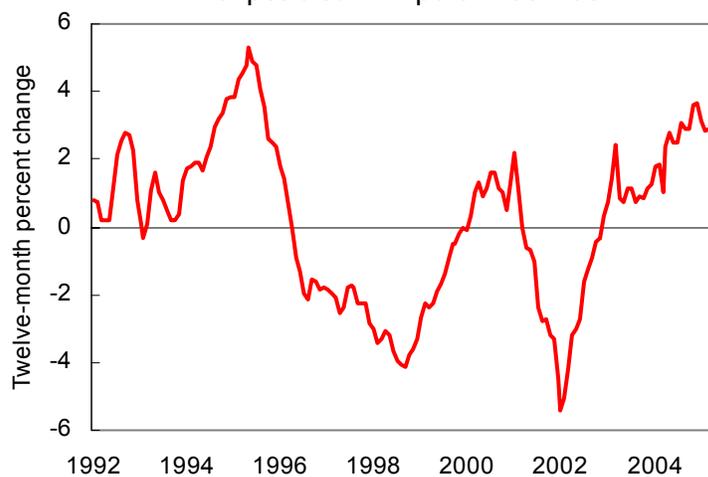
Domestic Spending Picks Up; International Imbalance Persists

Retail and Food Service Sales



Source: Census Bureau, U.S. Department of Commerce.

Nonpetroleum Import Price Index



Source: Bureau of Labor Statistics, U.S. Department of Labor.

- **Retail sales exceeded expectations in April.** Sales at retail and food services establishments grew by 1.4 percent last month, to a level 8.6 percent higher than a year earlier (see top chart). That was about twice the rate of growth that financial markets had been expecting. Sales growth was pervasive in April, with automotive sales up by 2.5 percent, sales at gas stations up by 1.9 percent, and all other retail and food services sales up by 1.0 percent. Sales at food and clothing establishments rose by 1.3 percent, the largest monthly advance in just over a year.
- **The trade deficit narrowed in March but remains large.** Exports of goods and services rose by \$1.5 billion in March and imports fell by \$4.1 billion. As a result, the trade deficit for goods and services—the difference between the value of imports and exports—declined by \$5.6 billion to \$55 billion. The growth in exports was concentrated in nonautomotive capital goods, largely reflecting exports of civilian aircraft overseas, but the decline in imports was more pervasive. Although the trade deficit was smaller than expected in March, it is still at an historically high level, amounting to nearly six percent of gross domestic product in the first quarter of the year.
- **Nonoil import prices continued rising in April.** The price index for imported goods excluding petroleum rose by 0.4 percent last month, following a 0.3 percent rise in March. Over the past twelve months, the price of nonoil imported goods has risen by 3.0 percent (see bottom chart). That is up from the 2.4 percent advance between April 2003 and April 2004. The rise in import prices largely reflects the declining exchange value of the U.S. dollar.

The Economy at a Glance	Apr	Mar	Feb	Jan	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004 Qtr 2	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.1	3.8	4.0	3.3	4.4	3.0
Industrial Production (% growth)*	n.a.	3.7	2.4	0	3.6	4.5	2.7	4.3	4.2	0
Capacity Utilization (level, %)*	n.a.	79.4	79.3	79.2	79.3	78.8	78.2	77.9	78.1	75.5
Civilian Unemployment Rate (level, %)	5.2	5.2	5.4	5.2	5.3	5.4	5.4	5.6	5.5	6.0
Housing Starts (thousands)*	n.a.	1837	2229	2189	2085	1975	1969	1920	1952	1853
Real Disposable Personal Income (% growth)	n.a.	0.1	1.5	4.7 [#]	4.3 [#]	3.5 [#]	2.9	2.8	3.2 [#]	2.3
Retail Sales (% growth)	18.0	4.3	8.1	0.7	6.0	10.2	6.4	6.6	7.3	4.3
Personal Saving Rate (level, %)	n.a.	0.4	0.5	0.8	0.6	0.5 [#]	0.7	1.3	0.9 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)*	n.a.	7.4	4.9	1.2	2.4	3.6	1.6	4.4	2.7	2.3
Core CPI-U Inflation (% growth)*	n.a.	4.9	3.7	2.4	2.6	2.3	1.7	2.6	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	4.1	3.6	3.9	4.0
Output per Hour (% growth)	—	—	—	—	2.6	2.1	1.3	3.9	4.1	4.4
Financial Markets										
T-bill Rate, 3-month (level, %)	2.78	2.74	2.54	2.33	2.54	2.01	1.49	1.08	1.37	1.01
T-note Rate, 10-years (level, %)	4.34	4.50	4.17	4.22	4.30	4.17	4.30	4.60	4.27	4.01
Federal Funds Rate (level, %)	2.79	2.63	2.50	2.28	2.47	1.95	1.43	1.01	1.35	1.13
Dow Jones Industrial Avg (index level)	10283	10682	10724	10540	10648	10362	10130	10289	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **New Residential Construction: April 2005** [Release: Tuesday, May 17]
- **Producer Price Indexes: April 2005** [Release: Tuesday, May 17]
- **Industrial Production and Capacity Utilization: April 2005** [Release: Tuesday, May 17]
- **Consumer Price Index: April 2005** [Release: Wednesday, May 18]